بنك اليوباف العربي الدولي ش.م.ب (م)
Alubaf Arab International Bank B.S.C(c)

BASEL III PILLAR III DISCLOSURES

31 DECEMBER 2018

ALUBAF Arab International Bank B.S.C (c)
Basel III -Pillar III disclosures
As at 31 December 2018

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1. Introduction

Central Bank of Bahrain("CBB"), the regulating body for Banks and Financial Institutions in the Kingdom of Bahrain,provides a common framework for the implementation of Basel III accord.

The Basel II framework is based on three pillars:

- Pillar I defines the regulatory minimum capital requirements by providing rules and regulations for measurement of credit risk, market risk and operational risk. The requirement of capital has to be covered by own regulatory funds.
- Pillar II addresses the Bank's internal processes for assessing overall capital adequacy in relation to risks (ICAAP). Pillar II also introduces the Supervisory review and Evaluation Process (SREP), which assesses the internal capital adequacy.
- Pillar III complements the other two pillars and focuses on enhanced transparency in information disclosure, covering risk and capital management, including capital adequacy.

This document gathers together all the elements of the disclosure required under Pillar III and complies with the public disclosure module of CBB, in order to enhance corporate governance and financial transparency. This disclosure report is in addition to the financial statements presented in accordance with International Financial Reporting Standards (IFRS).

2. Corporate Structure

ALUBAF Arab International Bank B.S.C. (c) ("the Bank") is a closed Bahraini joint stock company incorporated in the Kingdom of Bahrain and registered with the Ministry of Industry and Commerce under Commercial Registration (CR) number 12819. The Bank operates under a wholesale banking license issued by the Central Bank of Bahrain under the new integrated licensing framework. The Bank's registered office is at Alubaf Tower , Al Seef District, P O Box 11529, Manama, Kingdom of Bahrain.

The Bank is majority owned by Libyan Foreign Bank (Shareholding 99.50%), a bank registered in Libya.

3. Capital Structure

The Bank's Capital base comprise of Tier I capital, which includes share capital, statutory reserve and retained earnings and Tier II capital, which includes collective impairment loss provision.

The Bank's issued and paid up capital was US$ 250 million as at 31 December 2018, comprising of 5 million equity shares of US$ 50 each.

Break down of Capital Base		
	US$ '000s	**US$ '000s**
	CET I	**Tier II**
Share Capital	250,000	-
Statutory reserve	22,757	-
Retained earnings	16,352	-
Current interim net profit	15000	-
Cumulative fair value changes on FVOCI Investments (Debt)	(6,668)	-
Total CET I capital prior to regulatory adjustments	**297,441**	-
Less: intangibles other than mortgage rights	**(1,163)**	-
Total CET I capital after regulatory adjustment	**296,278**	-
Expected credit losses (ECL) Stage 1 & 2	-	7,840
Total	**296,278**	**7,840**
Total available capital		**304,118**

ALUBAF recorded a net profit of US$ 15,000 thousand for the year ended 31 December 2018 and transferred 10% of net profit (US$ 1,500 thousand) to Statutory reserve.
The Bank proposed a dividend of US$ 5,000 thousand, i.e., US$ 1 per Ordinary share for the year 2018.

4. Capital Adequacy Ratio (CAR)

The purpose of capital management at the Bank is to ensure the efficient utilization of capital in relation to business requirements and growth, risk profile and shareholders' returns and expectations.

The Bank manages its capital structure and makes adjustments in the light of changes in economic conditions and risk characteristics of its activities.
Capital adequacy ratio calculation:
The Bank's capital adequacy ratio of 42.84% is well above the minimum regulatory requirement of 12.5%.

	US$ '000
Total Eligible Capital Base	**304,118**
Risk weighted assets (RWA)	
Credit risk	627,192
Market risk	150
Operational risk	82,555
	709,897
CET I ratio	**41.74%**
Capital adequacy ratio	**42.84**%

5. Profile of risk-weighted assets and capital charge

The Bank has adopted the standardized approach for credit risk, market risk and the Basic indicator approach for operational risk for regulatory reporting purposes. The Bank's risk weighted capital requirement for credit, market and operational risks are given below:

5.1 Credit risk

Definition of exposure classes per Standard Portfolio

The Bank has funded and unfunded credit portfolio. The exposures are classified as per the Standard portfolio approach mentioned under the CBB's Basel II capital adequacy framework covering the standardized approach for credit risk.

The descriptions of the counterparty classes along with the risk weights used to derive the risk weighted assets are as follows:

(a) Claims on sovereigns

These pertain to exposures to governments and their central banks. Claims on Bahrain are risk weighted at 0%, while claims on other sovereigns, denominated in a non-relevant currency and unrated are assigned a risk weight of 100%.

(b) Claims on banks

Claims on Banks are risk weighted based on the ratings assigned to them by external rating agencies. However, short term claims on locally incorporated banks and claims maturing within three months and denominated in Bahrain Dinars or US Dollars are risk weighted at 20%. Other claims on banks, which are in foreign currency, are risk weighted using standard risk weights ranging from 20% to 100%. Unrated claims on banks are assigned a risk weight of 20% & 50% respectively.

(c) Claims on corporate portfolio

Claims on corporate portfolio are risk weighted based on external credit ratings and are assigned a risk weight of 100% for unrated corporate portfolio.

(d) Past due exposure

Past due exposures include Loans and advances of which interest or repayment of principal are due for more than 90 days; Past due exposures, net of specific provisions are risk weighted as follows:

(a) 150% risk weight, when specific provisions are less than 20% of the outstanding amount.

(b) 100% risk weight, when specific provisions are greater than 20% of the outstanding amount of the loan.

(e) Equity portfolios
Investments in listed equities are risk weighted at 100%.

(f) Any exposure exceeding 15% of Total capital
Claims on Banks or Corporate and other sovereigns or equity exposure that exceed 15% of total capital are risk weighted at 800%.

(g) Other exposures
These are risk weighted at 100%.

5.1 Credit risk (continued)

Credit exposure and risk weighted assets *US$ '000*

	Funded exposures	**Unfunded exposures**	**Gross credit exposures**	**Eligible collateral**	**Risk weighted assets**	**Capital charge**
Claims on sovereigns	497,949	0	497,949		79,954	9,994
Claims on banks	507,159	102,216	609,375	5,254	435,018	54,377
Claims on corporate	94,232	20,911	115,143	4,102	98,859	12,357
Past due exposures	2,427	-	2,427	-	2,427	303
Equity portfolio	-	-	-	-	-	-
Other exposures	10,934	-	10,934	-	10,934	1,367
Total	**1,112,702**	**123,127**	**1,235,828**	**9,356**	**627,192**	**78,398**

Gross credit exposure before credit risk mitigation

US$ '000

	Gross credit exposure	**Average monthly gross exposure**
Claims from Sovereigns	497,949	494,170
Claims from Banks	507,159	537,732
Claims on Corporate	94,232	99,821
Past due exposures	2,427	-
Equity Portfolio	-	-
Other exposures	10,934	11,568
Total funded exposure	**1,112,701**	**1,143,291**
Unfunded exposures	**123,127**	**70,914**
Gross credit exposures	**1,235,828**	**1,214,205**

Average monthly balance represents the average of the sum of twelve-month end balance for the year ended 31 December 2018

5.2 Market risk

The Bank's capital requirement for market risk in accordance with the standardised methodology is as follows:

US$ '000

	Risk weighted exposures	Capital charge	Maximum value	Minimum value
Foreign exchange risk	150	19	163	88

5.3 Operational risk

In accordance with the Basic indicator approach, the total capital charge in respect of operational risk was US$ 10,319 thousand on operational risk weighted exposure of US$ 82,555 thousand. This operational risk weighted exposure is computed using the Basic indicator approach, where a fixed percentage (Alpha), which is 15% of the average previous of three years' annual gross income,is multiplied by 12.5 operational capital charge; years with positive gross income are counted for computation of capital charge. This computation is as per CBB rulebook.

6. Risk Management

Risk is inherent in the Bank's business activities and is managed through a process of on going identification, measurement, controlling and monitoring. The Bank is exposed to credit risk , market and operational risk. Risk strategies of the Bank to mitigate the various risks were effective throughout the year.
Following is the Risk and Capital Management Structure:

Board of Directors

Board Audit, Risk & Compliance Committee
Management Risk Committee
Asset Liability Management Committee

The Board of Directors is responsible for the best practice management and risk oversight. Board of Directors defines the risk appetite and risk tolerance standards and oversees that risk process standards are in place. At the second level, Executive management is responsible for the identification and evaluation on a continuous basis of all significant risks to the business and implementation of appropriate internal controls to minimize them. Senior management is responsible for monitoring credit lending portfolio, country limits and interbank limits and general credit policy matters, which are reviewed and approved by the Board of Directors.

Independent internal audit of risk management process is conducted and its findings are to the Audit , Risk and Compliance Committee, which is appointed by the Board of Directors.

6.1 Credit risk concentrations and thresholds

The first level of protection against undue credit risk is through country and industry threshold limits, together with individual borrower threshold limits. Single name concentrations are monitored on an individual basis. Under the CBB's single obligor regulations, banks incorporated in Bahrain are required to obtain the CBB's approval for any planned exposure to a single counterparty or group of connected counterparties exceeding 15% of the regulatory capital base.

As at 31 December 2018, the Bank's exposure in excess of 15% of the obligor limits to individual counterparties is shown below:

US $ '000	Funded exposure	Unfunded exposure	Total
Counterparty A *	356,384	Nil	356,384
Counterparty B *	46,242	Nil	46,242

* Comprise of exempted large exposure to sovereign.

Risk mitigation –collateral

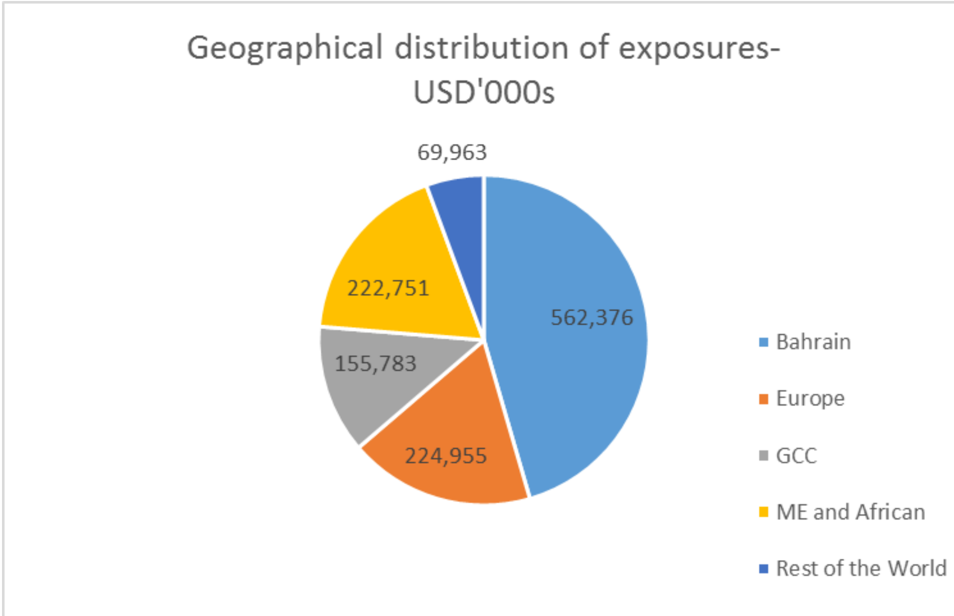
The amount and type of collateral depends on an assignment of the credit risk, credit rating and market conditions of the counterparty. The types of collateral mainly include cash collaterals for both funded and unfunded credit exposures, which is liquidated on maturity/expiry date. However, the impact on cash collateral will be nil with credit downgrade.

Majority of the collateral taken by the Bank is in cash; therefore, concentration risk is not significant. For further details on refer note 23.2 of the annual audited financial statements for the year ended 31 December 2018.

6.2 Geographical distribution of exposures based on residence is summarized below:

US$'000

	Gross credit exposure	Funded exposure	Unfunded exposure
Bahrain	562,376	562,376	-
Other GCC Countries	155,783	134,872	20,911
Other Middle east & Africa	222,751	120,829	101,922
Europe	224,955	224,945	10
Rest of the world	69,963	69,679	284
Total	**1,235,828**	**1,112,701**	**123,127**



6.2 Geographical distribution of exposures

The geographical distribution of gross credit exposures by major type of credit exposures can be analyzed as follows:

US$ '000

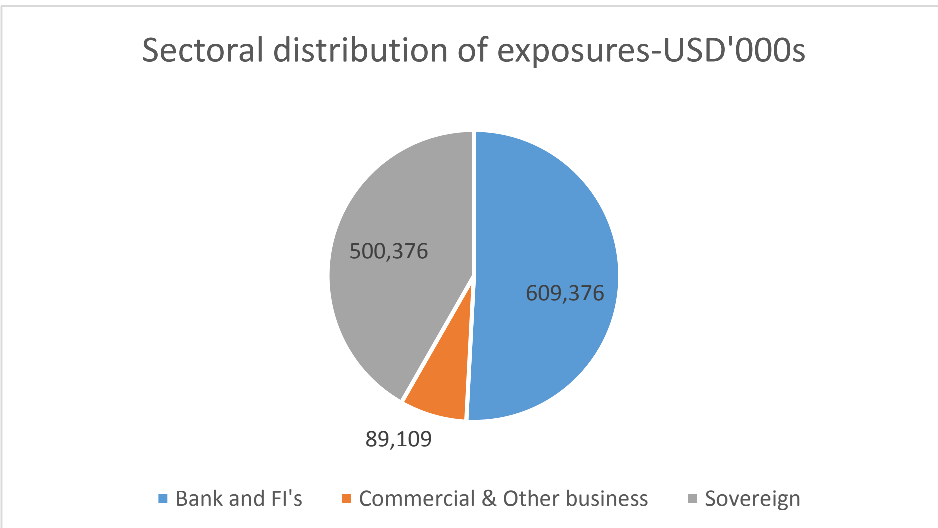
	Bahrain	**Other GCC Countries**	**Other Middle East and Africa**	**Europe**	**Rest Of the world**	**Total**
Claims from Sovereigns	397,147	32,866	67,936	-	-	**497,949**
Claims from Banks	149,426	87,713	50,292	150,050	69,679	**507,159**
Claims on Corporate	5,043	14,293	-	74,895	-	**94,231**
Past due exposures	-	-	2,427	-	-	**2,427**
Other exposures	10,760	-	174	-	-	**10,934**
Total funded exposure	**562,376**	**134,872**	**120,829**	**224,945**	**69,679**	**1,112,701**
Unfunded exposures	**-**	**20,911**	**101,922**	**10**	**284**	**123,127**
Gross credit exposures	**562,376**	**155,783**	**222,751**	**224,955**	**69,964**	**1,235,828**

6. Risk Management (continued)

6.3 Industry sector analysis of exposures is summarized below:

US$ '000

	Gross credit exposure	Funded exposure	Unfunded exposure
Sovereign	500,376	500,376	
Banks & financial institutions	609,376	507,160	102,216
Commercial &other business	126,076	105,165	20,911
Total	**1,235,828**	**1,112,701**	**123,127**



The industry sector analysis of gross credit exposures by major types of credit exposures can be analyzed as follows:

USD '000s

	Banks & financial institutions	Sovereign	Commercial & other businesses	Total
Claims from Sovereigns		497,949		**497,949**
Claims from Banks	507,160			**507,160**
Claims on Corporate			94,231	**94,231**
Past due exposures		2,427		**2,427**
Other exposures			10,934	**10,934**
Total funded exposure	**507,160**	**500,376**	**105,165**	**1,112,701**
Unfunded exposures	102,216		20,911	**123,127**
Gross credit exposures	**609,376**	**500,376**	**126,076**	**1,235,828**

6 Risk Management (continued)

6.4 Exposure by external credit rating

The Bank uses external credit ratings from Standard & Poors, Moodys and Fitch, which are accredited External Credit Assessment Institutions (ECAI). The Bank assigns risk weights through the mapping process provided by CBB to the rating grades. TheBank uses the highest risk weight associated, in case of two or more eligible ECAI are chosen. The breakdown of the Bank's exposure into rated and unrated categories is as follows:

US$ '000

	Funded exposure	Unfunded exposure	Rated-High standard grade exposure	Rated-Standard grade exposure	Unrated exposure
Claims on Sovereigns	497,949	-	2,514	468,511	26,924
Claims on Banks	507,160	102,216	98,462	329,649	181,265
Claims on Corporate	94,231	20,911	11,170	34,477	69,495
Past due exposures	2,427	-	-	-	2,427
Other exposures	10,934	-	-	-	10,934
Total	**1,112,701**	**123,127**	**112,146**	**832,637**	**291,045**

6.5 Maturity analysis of funded exposures

Residual contractual maturities of the Bank's funded exposures are as follows:

US$ '000

	Within 1 month	*1-3 months*	*3-12 months*	*Total within 1 year*	*1-10 years*	*Over10 Years*	*Undated*	*Total*
Claims on Sovereigns	122,113	185,729	7,043	**314,885**	183,064		-	**497,949**
Claims on Banks	400,688	16,373	54,763	**471,825**	35,336		-	**507,160**
Claims on Corporate	7,389	7,762	23,263	**38,413**	51,609	4,209	-	**94,231**
Past due exposures	-	-	-	-	2,427	-	-	**2,427**
Other exposures	34	655	13	**702**	10,232	-	-	**10,934**
Total	**530,224**	**210,518**	**85,082**	**825,824**	**282,668**	**4,209**	**-**	**1,112,701**

6. Risk Management (continued)

6.5 Maturity analysis of unfunded exposures

US$ '000

	Notional principal	*Within 1 month*	*1-3 months*	*3-12 months*	*Total within 1 year*	*Over one year*	*Total*
Claims from Banks	102,216	21,981	31,396	26,156	**79,533**	22,683	**102,216**
Claims from Corporate	20,911	-	20,911		**20,911**	-	**20,911**
Total	**123,127**	**21,981**	**52,307**	**26,156**	**100,444**	**22,683**	**123,127**

Credit-related contingent items:
Credit related contingent items comprise letters of credit confirmations, acceptance and guarantees. For credit-related contingent items, the nominal value is converted to an exposure through the application of a credit conversion factor (CCF). The CCF applied is at 20% to convert off balance sheet notional amounts into an equivalent on balance sheet exposure.

6.7 Impairment of assets

The Bank makes an assessment at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, an impairment loss is recognized in the statement of comprehensive income.

Evidence of impairment may include indications that a borrower is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that the borrower will enter bankruptcy or other financial re-organisation and where, observable data indicates, that there is a measurable decrease in the estimated future cash flows such as changes in arrears or economic conditions that correlate with defaults.

The Bank provides sufficiently by specific provision for any impairment and additionally, makes a collective provision of the net loans portfolio higher than 1% as required by the regulator.
Refer Disclosures made under 8 for details of impaired loans and relative specific provision made during 2018.

6.8 Market Risk

Market risk is the risk of potential financial loss that may arise from adverse changes in the value of a financial instrument or portfolio of financial instruments due to movements in interest rates, foreign exchange rates and equity prices. This risk arises from asset - liability mismatches, changes that occur in the yield curve and foreign exchange rates. Given the Bank's low risk strategy, aggregate market risk levels are considered very low.

6. Risk Management (continued)

Interest rate risk on the Banking book arises from the possibility that changes in interest rates will affect the value of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off-balance sheet instruments that mature or reprice in a given period. The Bank manages this risk by matching the repricing of assets and liabilities through basis point value approach, which measures changes in economic value resulting from changes in interest rates. The Bank's interest rate sensitivity position as of 31 December 2018 for a change in 200 basis points will result in an increase or decrease on statement of income by +/(-) US$ 778 thousand for US$ denominated and US$ 270 on Euro denominated financial instruments.

Currency risk arises from the movement of the rate of exchange over a period of time. The Banks currency risk is limited to Euro denominated assets and liabilities, as Bahrain Dinars and GCC Currencies (except Kuwaiti Dinars) are pegged to US Dollars. The Bank limits this risk by monitoring positions on a regular basis. Thus, the Banks' exposure to currency risk is minimal and insignificant.

Liquidity risk is the risk that the Bank will be unable to meet its funding requirements. Liquidity risk can be caused by market disruptions or a credit downgrade which may cause certain sources of funding to dry up immediately. During 2018, the Bank depended mainly on its own capital and assets were managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents and deposits with banks.

6.9 Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes or systems, or from external events. Operational risk is inherent in all business activities and can never be eliminated entirely, however shareholder value can be preserved and enhanced by managing, mitigating and, in some cases, insuring against operational risk.To achieve this goal, the Bank intends to make operational risk transparent throughout the enterprise, to which end processes are being developed to provide for regular reporting of relevant operational risk management information to senior management and the Board of Directors.

Operational functions of booking, recording and monitoring of transactions are performed by staff that are independent of the individuals initiating the transactions. Each business line including Operations, Information Technology, Human Resources, Compliance and Financial Control is further responsible for employing the aforementioned framework processes and control programmes to manage its operational risk within the guidelines established by the Bank policy, and to develop internal procedures that comply with these policies.

5. Risk Management (continued)

6.10 Capital management:
Internal Capital Adequacy Assessment Process (ICAAP)

The Bank's capital management aims to maintain an optimum level of capital to enable it to pursue the Bank's corporate strategies whilst meeting regulatory ratio requirements.
Comprehensive assessment of economic capital, i.e., credit, market and operational risks and processes relating to other risks such as liquidity, is made, reviewed and monitored regularly. The Bank's capital adequacy ratio of 42.84% is well above the regulatory requirement and provides a healthy cushion against any stress conditions.

Supervisory Review and Evaluation Process (SREP):
Central Bank of Bahrain (CBB) is the regulator for the Bank and sets the minimum capital requirement. CBB requires the Bank to maintain a 12.5% minimum ratio of total capital to risk weighted assets, taking into account both on balance sheet and off balance sheet exposures. The Bank maintains a strong and healthy capital adequacy ratio.

7 Other Disclosures

7.1 Related Party transactions

Related party represents major shareholders, directors, key management personnel and entities significantly influenced by such parties. Pricing policies are at arm's length and approved by executive management and Board of Directors.

	31-Dec-18
	US$ '000
Interest & similar income	214
Interest expense	13,081
Fee and commission income	149
Assets	
Cash and balances with banks	5,907
Deposit with banks and financial institutions	9,714
Loans and advances	4,629
Interest receivable	44
Other assets	50
Liabilities	
Deposits from banks and other financial institutions	474,719
Due to banks and other financial institutions	3,780
Interest payable	1,458
Other liabilities	396
Contingent liabilities	
Letters of credit and letters of guarantee	5,696
Assets under management	21,967

7.2 Impaired loans and relative provision (stage 3):

USD'000s	up to 1 year	1 to 3 years	Total
Gross impaired loans (stage 3)	32,314	69,584	**101,898**
Less: Specific Provision (stage 3)	29,887	69,584	**99,471**
Net outstanding 31 December 2018	**2,427**	**-**	**2,427**

Movement in impairment provision including Expected credit losses- Loans and advances

USD'000s	Stage 1	Stage 2	Stage 3	Total
Loans				
At beginning of the year	2,856	18,610	76,984	**98,450**
Transfer to Stage 1			-	**-**
Transfer to Stage 2	(42)	42	-	**-**
Transfer to Stage 3		(18,610)	18,610	**-**
Net re-measurement loss allowance	837	2,594	4,149	**7,580**
Write back/ recoveries				
Write off during the period				
Exchange difference			(272)	**(272)**
Balance as at 31 December 2018	**3,651**	**2,636**	**99,471**	**105,758**

Movement in Expected credit losses :

USD'000s	Stage 1	Stage 2	Stage 3	Total
Investments				
At beginning of the year	604	3,799	-	**4,403**
Transfer to Stage 1	1,331	(1,331)		**-**
Transfer to Stage 2	(91)	91		**-**
Transfer to Stage 3				
Net re-measurement loss allowance	(1,381)	(1,071)		**(2,452)**
Write back/ recoveries				
Write off during the period				
Exchange difference				
Balance as at 31 December 2018	**463**	**1,488**		**1,951**

Movement in Expected credit losses :

USD'000s	Stage 1	Stage 2	Stage 3	Total
Other Financial assets and off Balance sheet items				
At beginning of the year	94	4	-	**98**
Transfer to Stage 1	4	(4)		
Transfer to Stage 2				
Transfer to Stage 3				
Net re-measurement loss allowance	711			**711**
Write back/ recoveries				
Write off during the period				
Exchange difference				
Balance as at 31 December 2018	**809**	**-**		**809**

Specific Provision by Geographic and Sector (Stage 3):

USD '000s	**Other Middle East and Africa**
Banks & Financial Institutions	41,772
Sovereigns	29,888
Corporate	27,811
Total	**99,471**

Expected Credit loss (Stage 1 & 2) provision of US$ 9,047 thousand as at 31 December 2018 is not for any specific geographic region.

7.3 Restructured facilities:

	31 December 2018 US$ '000
Balance of any restructured credit facilities as at 31 December 2018	36,616
Loans restructured during the Year	Nil

The facilities restructured prior to year 2018 have been categorized as per IFRS -9 requirement and required Expected credit loss provision (ECL) has been considered during the year.

7.4 Assets sold under recourse agreements: The Bank did not enter into any recourse agreements during the year ended 31 December 2018.

7.5 Equity positions in the banking book : Nil